

## PLYMOUTH CITY COUNCIL

**Subject:** Draft Budget 2017-18  
**Committee:** Cabinet  
**Date:** 6 December 2016  
**Cabinet Member:** Cllr Darcy  
**CMT Member:** Lesa Annear  
**Author:** Paul Cook (Head of Financial Planning and Reporting)  
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**Ref:**

**Key Decision:** Yes  
**Part:** I

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### **Purpose of the report:**

Under the Council's Constitution, Cabinet is required to recommend the 2017/18 Budget to Council. This report is the next stage in preparing the Budget for 7 February 2017 Cabinet to recommend to 27 February 2017 Council.

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### **The Corporate Plan 2016/19:**

The 2017/18 Draft Budget sets out the resources available to deliver the Corporate Plan.

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### **Implications for Medium Term Financial Plan and Resource Implications: Including finance, human, IT and land:**

The resource implications are set out in the body of the report.

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### **Other Implications: e.g. Child Poverty, Community Safety, Health and Safety and Risk Management:**

The 2017/18 Draft Budget provides the maximum resources achievable to address key policy areas.

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### **Equality and Diversity:**

A full equalities impact assessment is attached.

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### **Recommendations and Reasons for recommended action:**

1. That the proposed revenue budget is presented to scrutiny committees in January 2017;
2. Members and officers continue to work on solutions in order to close the existing budget gap in 2017/18 in order to present a balanced budget at Full Council in February 2017;
3. Cabinet consider findings from consultation, feedback from scrutiny committees and any material changes announced in the final settlement for Plymouth City Council in early February 2017.

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**Alternative options considered and rejected:**

There are no alternative options.

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**Published work / information:**

[Medium Term Financial Strategy 2017/18 – 2019/20](#)

**Background papers:**

Title	Part I	Part II	Exemption Paragraph Number						
			1	2	3	4	5	6	7

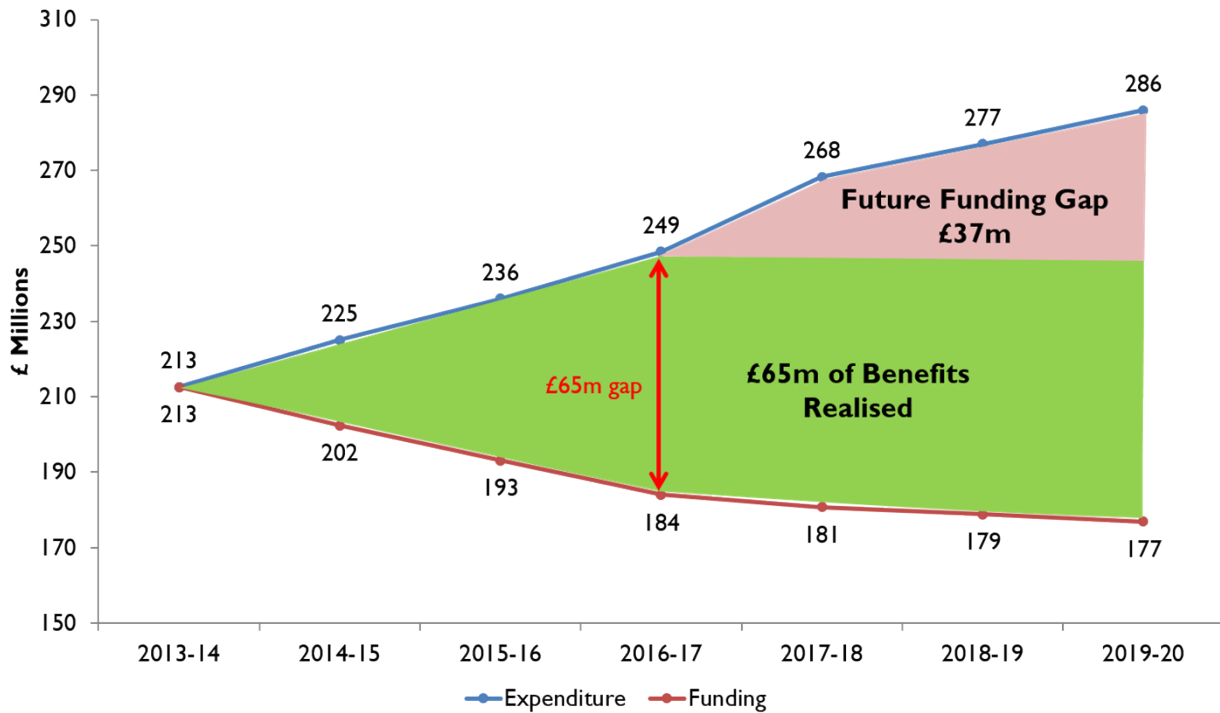
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**Sign off:**

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Originating SMT Member -										
Has the Cabinet Member(s) agreed the content of the report? Yes										

## 1.0 Introduction

- 1.1 The Medium Term Financial Strategy was recommended by 8 November 2016 Cabinet and subsequently approved by 21 November 2016 Council. The Strategy addresses the funding gap for the following three financial years. It builds on the significant benefits achieved over recent financial years.



- 1.2 The 2017/18 Budget is now being developed in greater detail and in accordance with the budget timetable.
- 1.3 There are a number of changes to forecast funding and expenditure for 2017/18 and these are set out in the sections below. They are also summarised in the table below.

	2017/18 £m	2018/19 £m	2019/20 £m
	<b>FORECAST</b>		
<b>Budget Gap 8 November MTFS</b>	<b>2.241</b>	<b>0.682</b>	<b>-0.730</b>
Autumn Statement	-0.800		
Provisional Local Government Finance Settlement	Expected to be available 8 December 2016		
Pension Cost in excess of MTFS provision	+0.500	-0.150	-0.350
Fees and charges increases below MTFS assumption	0.000	0.423	0.423
<b>Budget Gap 6 December 2016</b>	<b>1.941</b>	<b>0.955</b>	<b>-0.657</b>

1.4 The overall budget position is now set out in the table below

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
	<b>BUDGET</b>	<b>FORECAST</b>		
<b>REVENUE RESOURCES AVAILABLE</b>	<b>186.702</b>	<b>180.776</b>	<b>178.804</b>	<b>176.920</b>
Baseline spend requirement	193.009	186.702	180.776	178.804
One off savings brought forward		4.876		
Plus identified additional costs	17.564	10.436	7.207	6.053
<b>Overall spend requirement</b>	<b>210.573</b>	<b>202.014</b>	<b>187.983</b>	<b>184.857</b>
<b>In-year shortfall to be found</b>	<b>23.871</b>	<b>21.238</b>	<b>9.179</b>	<b>7.937</b>
<b>Cumulative shortfall</b>		<b>45.109</b>	<b>54.288</b>	<b>62.225</b>
<b>Transformation stretch savings</b>	<b>23.871</b>	<b>19.297</b>	<b>8.224</b>	<b>8.595</b>
<b>REVISED SPENDING FOR YEAR</b>	<b>186.702</b>	<b>182.717</b>	<b>179.759</b>	<b>176.262</b>
<b>Budget Gap 6 December 2016</b>	<b>0.000</b>	<b>1.941</b>	<b>0.955</b>	<b>-0.657</b>

## 2.0 The Autumn Statement

2.1 The main announcements are set out in the Appendix.

2.2 The National Living Wage will be increased to £7.50 from April 2017. This is lower than the MTF5 assumption of £7.65. The £2.520m provision in 2017/18 can therefore be reduced by £0.850m.

2.3 Insurance premium tax will increase from 10% to 12%, costing the Council around £0.020m in 2017/18.

2.4 Employer national insurance contribution thresholds are being harmonised with employee thresholds. This is expected to cost the Authority £0.030m in 2017/18.

2.5 The net effect of all these changes is a reduction in the savings gap in 2017/18 of £0.800m.

## 3.0 Provisional Local Government Finance Settlement 2017-18

3.1 It is expected the Provisional Local Government Finance Settlement will be issued on 8 December 2016. 4-year RSG settlements have been taken up by the greater part of local authorities. The calculation of the settlement should therefore be simplified. However the results of a number of technical consultations by DCLG are expected to be announced in the settlement. Significant items include

- Revisions to the New Homes Bonus Scheme and the basis of allocation for the enhanced Better Care Fund
- Arrangements to ensure the 2017 business rates revaluation is cost neutral for individual local authorities

3.2 Although the Council has opted to accept the 4 year settlement this does not mean the Council cannot make representation during the settlement consultation phase. The Council will continue to press for a better deal for the residents of Plymouth. When offered, government said that those

authorities opting for the 4 years settlement would not be worse off; therefore guaranteeing a minimum funding position.

3.3 Any implications of the Provisional Local Government Finance Settlement will need to be incorporated in later reports.

#### 4.0 Pension Costs

4.1 The actuarial valuation of Devon County Council's pension fund as at 31 March 2016 will be implemented 2017/18 onwards. Provision has already been made in the MTFS in anticipation of increased costs.

4.2 The PCC employer's contribution has two components – future service rate and deficit repayment.

4.3 The actuaries have determined that the future service rate will be 14.7%. This is 1% higher than the previous rate. This would represent an additional general fund cost of £600k from 2017/18 onwards.

4.4 The 2013 valuation assumed PCC would repay its £111m share of the pension fund deficit over 24 years from 2014/15. The 2016 valuation continues this profile with the deficit now being recoverable over 21 years from 2017/18. The deficit repayable has however increased to £128m. With interest due to the long period to repay the deficit the overall deficit cost is around £168m. The impact of these decisions is a proposed additional deficit contribution from the general fund of £1.000m in 2017, followed by an additional £0.150m in 2018/19 and an additional £0.150m in 2019/20.

		2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
		FORECAST			
1	Future service rate	13.7%	14.7%	14.7%	14.7%
2	Additional cost (excluding schools) following valuation		0.600	0.000	0.000
3	Deficit recovery period	22 years	21 years	20 years	19 years
4	Additional deficit cost (excluding schools) following valuation		1.000	0.150	0.150
5	Net additional cost (2) + (4)		1.600	0.150	0.150
6	MTFS provision – 8 November Cabinet		-0.600	-0.900	-0.600
7	Reprofiled cash flow		-0.500	0.600	0.100
8	Cost in excess of MTFS provision (5) – (6)		0.500	-0.150	-0.350
	Memorandum Items				
9	Value of future service contributions	10.112	11.062	11.062	11.062
10	Of which recoverable schools		2.212	2.212	2.212
11	Deficit lump sum payable	6.358	7.651	7.834	8.021

4.6 The impact of these changes is set out in the table. The figures are provisional as discussions are still continuing with the actuaries. Any shortfall in recovery of the deficit contribution in 2016/17 will be addressed at financial year-end.

4.7 The deficit repayment is a long-term funding issue that needs to be considered in combination with the proposed increased future service rate. It is expected that total contributions can be reprofiled to spread the cost more evenly over the 3 financial years resulting in an additional pressure of only £500k in 2017/18. This would maintain the current target for deficit reduction whilst fully funding future service costs.

## 5.0 Fees and Charges

- 5.1 A revised Fees and Charges policy was approved by Cabinet on 8 November 2016. The assumed £500k in 2018/19 and 2019/20 has not yet been fully delivered and the budget gap is adjusted accordingly.
- 5.2 Proposals have now been developed over all the discretionary charging areas. The approach follows the Policy. Each year charges ought by and large to be increased by the Consumer Price Index (CPI). This avoids long periods of no review and then the need for a sudden hike. Charges are set in sensible amounts (not £1.01p)
- 5.3 Charges recover full cost where appropriate. Exceptions might be bulky waste (fly tipping) or compassion grounds.

## 6.0 Adult Social Care Precept

- 6.1 In the Spending Review November 2015 the Chancellor announced that for the rest of the current Parliament Local Authorities with responsibility for Adult Social Care (ASC) will be given an additional 2% flexibility on the current Council Tax referendum threshold to be used entirely for ASC.
- 6.2 The 2016/17 Budget approved a 2% Adult Social Care precept. The £1.845m income has been used to fund ASC provision.
- 6.3 The Adult Social care precept is shown separately on Council Tax bills as required by regulations.
- 6.4 An additional 2% precept on Council Tax for Adult Social Care in 2017/18 will raise £1.873m. This is included in the MTFs resource assumptions.
- 6.5 Adult Social Care is the largest single budget in the Council. In 2016/17 it is £71.238m and in 2017/18 is planned to be £73.514m.
- 6.6 The MTFs allows additional costs for care packages of £2.756m in 2017/18. A further £1.854m is allocated in 2018/19 and £1.374m in 2019/20.

	2017/18	2018/19	2019/20
	£m	£m	£m
	<b>FORECAST</b>		
Additional cost for care packages	2.756	1.854	1.374
National Living Wage in contracts	1.670	3.263	3.479
	<b>4.426</b>	<b>5.117</b>	<b>4.853</b>
<b>2% Adult Social Care Precept</b>	<b>1.901</b>	<b>1.958</b>	<b>2.017</b>

- 6.6 The Government also expects the national living wage to be included in all ASC contracts. The MTFs allows £2.520m in 2017/18, adjusted following the Autumn Statement to £1.670m. A further £3.263m is allocated in 2018/19 and £3.479m in 2019/20.
- 6.7 Adult Social Care provision is a statutory service and the Council must meet clients' assessed needs. The table demonstrates that the MTFs additional costs significantly exceed the income derived from the Adult Social Care precept.

6.8 In 2017/18 the Adult Social Care precept might be regarded as paying for any of the service packages below:

- 216 vulnerable older people to remain living in their own homes through the provision of valuable home care that provides assistance with daily living and personal care, such as bathing, washing, dressing, prompting with medication and preparing meals
- 145 clients in extra care housing which provides bespoke care and support in purpose built accommodation with every tenant having their own flat with a range of communal on site facilities.
- 61 working age adults with complex, profound and multiple needs (including those with learning and physical disabilities) live independent, fulfilling lives in supported living in their communities rather than in institutionalised settings

6.9 These financial pressures the Council has been taking steps to speed up financial assessments, reducing the period from 112 days to below 20 days. This enables the Council to recover income through the fairer charging policy that would not otherwise have been available.

## **7.0 Conclusion**

7.1 There is still further work to do to finalise the budget for 2017/18. This cannot be completed until the details of the provisional settlement have been announced which should include confirmation of the 4 year settlement including details of specific grants.

## Autumn statement 2016

### Overview

- Borrowing is forecast to be £122bn higher in the period until 2021 than forecast in March's Budget
- No longer aiming for surplus by end of the decade. New fiscal targets aim for 2% underlying deficit and debt falling by 2020, and a balanced budget as soon as possible thereafter
- Office for Budget Responsibility (OBR) forecasting growth of 1.4% in 2017, 2.1% in 2019/20 and 2% in 2021 (lower than previously forecast)
- Government to stick to departmental spending plans set out in Spending Review 2015
- From next year, Budget to move to Autumn and there will now be a Spring Statement although no changes to be made. Further details [here](#).

### Infrastructure and Investment

- Government prioritising infrastructure & investment to raise productivity
- £23bn National Productivity Investment Fund (NPIF) to be spent on innovation & infrastructure over next 5 years - targeted at transport, housing, digital communications and research & development (R&D).
- £2bn extra investment per year in R&D
- Digital infrastructure – over £1bn investment in full-fibre broadband and 100% business rate relief on new fibre infrastructure
- [Industrial Strategy](#) being developed – green paper due before end of year

### Transport

- £1.1bn investment in English local transport networks
- £220m to reduce traffic pinch points
- £450m digital signaling on trains and smart ticketing
- £390m on low emission vehicles, renewable fuels, and connected and autonomous vehicles

### Housing and Planning

- Affordable housing - £1.4bn to deliver 40,000 affordable homes
- Grant funding restrictions relaxed to allow providers to deliver a mix of homes for affordable rent and low cost ownership
- £2.3bn housing infrastructure fund (funded by the NPIF) to help provide 100,000 new homes in areas of high demand
- Pilot of Right to Buy for housing association tenants
- Ban on letting agent fees 'as soon as possible'
- Housing white paper coming shortly

### Welfare

- No plans for further welfare saving measures in this Parliament (beyond those already announced)
- Welfare spending cap to remain
- Universal Credit taper rate decreased from 65% to 63% from April 2017

### Devolution

- £1.8bn from Local Growth Fund to be allocated to regions– £191m to South West with allocation for individual LEPs to be announced shortly.
- Mayoral Combined Authorities to have new borrowing powers

### Finance

- National Living Wage increase from £7.20 to £7.50 in April 2017 (Plymouth City Council currently pays Living Wage Foundation rate of £8.45)
- Fuel duty rise to be cancelled
- Rise in Insurance Premium Tax from 10% to 12%



- Corporation Tax to fall to 17% as planned by 2020
- Employee and employer National Insurance thresholds to be equalised at £157 per week from April 2017
- Income tax threshold to be raised to £11,500 in April, from £11,000 now. Higher rate income tax threshold to rise to £50,000 by the end of the Parliament
- From April 2017, tax savings on salary sacrifice and benefits in kind to be stopped, with exceptions for ultra-low emission cars, pensions, childcare and cycling

## **Culture**

- £1 million towards the development of a new [creative media centre](#) in Plymouth

## **Useful Links**

[Full Autumn Statement documents](#)

[LGA Autumn Statement 2016 live blog](#)

[LGiU Autumn Statement briefing](#)